



THULAMELA MUNICIPALITY

DRAFT REVIEW - TARRIF POLICY

2017/18 FINANCIAL YEAR

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Tariff Policy

1. Preamble

In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and, in terms of S62 (1) (f), must for this purpose take all reasonable steps to ensure – “that the municipality has and implements a tariff policy referred to in Section 74 of the Municipal Systems Act” (MSA).

In giving effect to S74 (1) of the Municipal Systems Act, the municipality adopts the following as the framework tariff policy within which the municipal council must adopt various policies.

2. Definitions

In this policy:

“**municipal area**” means the area in respect of which the municipality has executive and legislative authority as determined by the constitution and the National legislation and the area as demarcated by the Demarcation Act (Act 27 1998);

“**municipal council**” means a municipal council referred to in section 157 of the Constitution and for this by-law includes a municipal local council and a municipal district council, as the case maybe;

“**poor households**” means those households in the municipal area living with total household salary that is below the threshold for indigent, as described in the indigent policy.

“**tariff policy**” means a policy on the levying of fees, rates or taxes for the municipal services provided by the municipality itself and that complies with the Municipal Systems Act 2000 (Act 32 of 2000);

“**the Act**” means the Municipal Systems Act 2000, (Act 32 of 2000) (MSA).

3. Introduction

One of the primary functions of a local authority is to provide services to the people resident within its municipal area. The funding of these services is made possible by levying property taxes, charging for municipal services rendered.

Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality. These are calculated dependent on the nature of service being provided.

They may be set in a manner so as to recover the full cost of the service being provided or recover part of the costs or bring about a surplus that can be utilized to subsidize other non- economical services.

4 Objective

The objective of the tariff policy is **to ensure that:**

- 4.1 The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
- 4.2 The Municipal services are financially sustainable, affordable and equitable.
- 4.3 The needs of the indigent, aged and disabled are taken into consideration.
- 4.4 There is consistency in how the tariffs are applied throughout the municipality
- 4.5 The policy is drawn in line with the principles as outlined in the MSA (see 5 below)

5. Principles

In terms of S74 (2) of the Municipal Systems Act the following principles should at least be taken into account when formulating a Tariff Policy, categories of users should be fully disclosed.

- 5.1 The users of municipal services should be treated equitably in the application of tariffs.
- 5.2 As far as practically possible, consumers should pay in proportion to the amount of services consumed.
- 5.3 All households, with the exception of the poor (indigent), should pay the full costs of services consumed. Poor households must have access to at least a minimum level of basic services through:
 - 5.3.1 Tariffs that cover the operating and maintenance costs,
 - 5.3.2 Special lifeline tariffs for low levels of use or consumption of services or for basic levels of service, or
 - 5.3.3 Any other direct or indirect method of subsidization of tariff for poor households.
- 5.4 Tariff must include the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.

5.5 Tariffs must be set at a level to facilitate financial sustainability of the service, taking into account subsidization from sources other than the service concerned.

5.6 Provision may be made in appropriate circumstance for a surcharge on the tariff for a service.

5.7 Provision may be made for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.

5.8 The economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives must be encouraged.

5.9 The extent of subsidization of the poor households and other

In terms of S74 (3) of the MSA a tariff policy may differentiate between different categories of users, debtors, service providers, services and geographical areas as long as the differentiation does not amount to unfair discrimination. In order to give full effect to this section, Section 75 (1) of the MSA provides for the municipal council to adopt bylaws.

6. Classification and Pricing Strategies of Services

There are basically three categories of municipal services (i.e. trading services, rates and general services) which are discussed as follows:

6.1 Trading Services

These services are defined as services whereby the consumption of the service is measurable and can be accurately apportioned to an individual consumer. These services are hence managed like businesses. The tariffs for these services are budgeted for in such a way that at least a breakeven situation for the municipality will be realized.

The Council's pricing strategy for these services is to recover the full cost of rendering the service to the communities.

For this purpose full costs includes:-

- Direct operating costs e.g. Salaries, allowances including overtime, materials used, repairs and maintenance, general expenses and plant and vehicle hire.
- Depreciation / capital charges based on usage, life of buildings, plant and equipment and infrastructure used.
- Financing outlays which includes loan service costs.
- Allocated costs that include costs allocated through support services.

6.2 Rates and General Services

This service is further classified into 3 categories i.e. economic, subsidized and community services.

6.2.1 Economic Service

These are services for which tariffs are fixed in such a way that the full cost of providing the service is recovered without incurring a surplus or deficit e.g. trade effluent includes commercial and industrial refuse removal. The consumption of an economic service can be measured or determined with reasonable accuracy and apportioned to an individual consumer. Whilst they are also managed like businesses, the tariffs for these services are normally determined in such a way that user charges cover the cost of providing the service.

6.2.2 Subsidized Services

These are services for which tariffs are **fixed** in such a way that at least a portion of the cost of providing the service can be recovered. The consumption of these services can be determined reasonably accurately and can be apportioned to individuals and consumers. However, if the tariffs for using this service were based on its real cost, nobody would be able to afford it. In most cases not only would the consumer benefit from using the service, but also other persons? Therefore, **user charge** is payable for using the service, but the tariff is much lower than the real cost of providing the service. These services include approval of building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions.

6.2.3 Community Services

Community services are those services for which the Council is unable to accurately determine the consumption and hence apportion to individual consumers. These services are typically financed through property rates. These services include the operation and maintenance of parks and recreation facilities, provision and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation. In addition to the above services domestic refuse removal is also a community service provided directly to all the residents and for which costs form part of a balanced budget.

The Municipality also provides support services such as committee services, records and archives, financial management accounting and stores, occupational health and human resources management, which are financed through property rates.

7. Policy Proposal

7.1 A minimum amount of basic services must be free.

The Municipality subscribes to the policy that all poor households are entitled to a minimum amount of free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. These services include:

- Domestic refuse removal

7.2 Keeping Tariffs Affordable

The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels. The Council is also aware that due to historical reasons many residents receive services at a level higher than what they can afford. In order to remain affordable the Council will ensure that:

- Services are delivered at an appropriate level,
- Efficiency improvements are actively pursued across the Municipalities' operations,
- A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used,
- Any non-core functions that it currently performs are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in our area, and
- Any service that is provided for which there is little demand, be priced at the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities, are phased out, except where the Council is by law required to provide such a service.

7.3 Promoting Local and Economic Competitiveness and Development

The size of the property rates and service charges accounts presented to the local businesses, is a significant business overhead for any business enterprise in the Municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival. The Council will take care that the municipal accounts presented to local businesses are fair. To ensure fairness toward local business, the Council will, when it determines tariffs, take into account the desire:

- To promote local economic competitiveness and
- To promote local economic development and growth.

7.4 Ensuring Financial Sustainability of Service Delivery

The Constitution, Local Government Municipal Systems Act, 2000 and Water Services Act of 1997 require that the Municipality must ensure that the services that it provides must be sustainable.

Financial sustainability of an enterprise will be achieved when it is financed in a manner that ensures that its financing is sufficient. The tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision.

However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that charges to be levied must be collected. The Council will therefore adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and service charges are fully recovered.

8. Tariff Determination Process

8.1 In terms of Section 75 (A) of the MSA Amendment Act 51/2002, a municipality may,

- Levy and recover fees, charges or tariffs in respect of any function or service of the municipality,
- That such fees and charges levied are passed by the municipal council with a supporting vote of a majority of its members.
- The proposed tariffs will be presented to the community during Council's consultations process about the budget.

8.2 Except in special circumstances, such as significant increase in the wholesale price of

proposed tariffs will be presented to the community during Council's consultations process about the budget.

8.4 The tariffs will be approved as part of annual budget

9. ADJUSTMENT OF ACCOUNTS.

Where incorrect debits were raised, the accounts under query will be rectified as necessary.

10. SHORT TITLE

This policy is called the Thulamela Local Municipality Tariff Policy